

The complaint

Mr H complains Sainsbury's Bank Plc (trading as Sainsbury's Finance) gave him four unaffordable loans.

What happened

Mr H took out two loans – the second within two weeks of the first – in August 2016 and a further two loans in April 2017 and June 2017. The original loan was for £3,000 and the final one was for £15,000.

In 2020 Mr H complained to Sainsbury's Finance saying that the loans he'd taken out were unaffordable. He said, when he complained, that he'd been taking out payday loans and other lending at the time. Sainsbury's Finance has said the last loan Mr H took out was repaid in full during 2020.

Sainsbury's Finance looked into Mr H's complaint and said it didn't agree the loans were unaffordable given the credit checks it had done. Mr H was unhappy with Sainsbury's Finance's response and so complained to us.

One of our investigators looked into Mr H's complaint and, having asked for additional information about his finances and circumstances at the time, said that they thought the third and fourth loan had been lent irresponsibly. Our investigator thought that Sainsbury's Finance should have done more checks when he came back to refinance his debt so soon after taking out his previous loan and asking for increasing amounts of borrowing. Our investigator thought that would have led Sainsbury's Finance to come to the conclusion, given what was going on with Mr H's finances, that further borrowing was unsustainable. Sainsbury's Finance disagreed saying that all the checks it had done showed the loans were affordable and that until the fourth loan Mr H hadn't missed any payments. Sainsbury's Finance asked for an ombudsman to look into Mr H's complaint. So that's what I've done.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Mr H took out his second loan from Sainsbury's Finance shortly after his first loan – he didn't make any payments on the first loan as a result. Our investigator thought, in the circumstances, that they should start their assessment from the second loan. I agree that this is the appropriate thing to do in the circumstances. I know Mr H doesn't – he's told us that being able to take out two loans so shortly after one another got him to think he could go back for loan after loan and increasing amounts of lending. He's told us that this ultimately resulted in him taking on very significant amounts of debt. I can see what he's saying, but I do think it's right to look at each loan separately starting from loan two given that it was taking so soon after the first loan. I can see that Mr H told Sainsbury's Finance that the reason he'd come back for a larger loan was because he wanted additional borrowing to purchase a laptop. His first loan was to consolidate debt.

I've seen the checks that Sainsbury's Finance carried out when Mr H applied for the second loan. I do think those checks were reasonable and proportionate in the circumstances. So, I don't think it would be fair to say to Sainsbury's Finance that it should have concluded the second loan was unaffordable. Sainsbury's Finance carried out similar checks for loans three and four and has said that those checks ought to have been sufficient too. I don't, however, agree, and I'll explain why.

Mr H told Sainsbury's Finance that he was taking out the third and the fourth loans were also in order to consolidate his debt. Those consolidations not only took place within a short space of each other, but they were for increasing amounts. The first loan was a consolidation too. I agree with our investigator that Mr H repeatedly apply for loans to consolidate his debt within a short space of time and asking for larger and larger loans should have prompted Sainsbury's Finance to do additional checks beyond the ones they did as these were signs Mr H's finances were not in a good state – such checks would have been reasonable and proportionate. Had Sainsbury's Finance done that, I'm satisfied that they would have discovered not only that Mr H was not only relying on pay day loans to manage his debt but that he was also spending more and more money on gambling. More importantly, I'm satisfied that Sainsbury's Finance would have come to the conclusion that further lending was unsustainable. In other words, I'm satisfied that Sainsbury's Finance wouldn't have gone ahead and lent to Mr H. So it's fair that he's put back into the position he would have been – in so far as that is possible – had the third and fourth loan not gone ahead.

Putting things right

Our investigator recommended the following steps, namely that:

1. Sainsbury's Finance should refund all the interest and charges Mr H has paid to date in relation to loans three and four.
2. If the borrowing is still in place, Sainsbury's Finance should reduce the outstanding capital balance by the amount calculated at Step 1.
3. If, after Step 2, there remains an outstanding capital balance, Sainsbury's Finance should ensure that it isn't subject to any historic or future interest and / or charges. But if Step 2 leads to a positive balance, the amount in question should be given back to Mr H and 8% simple interest should be added to the surplus.
4. Sainsbury's Finance should remove any adverse information recorded on Mr H's credit file as a result of the interest and charges.

Our investigator noted that HM Revenue & Customs may require the business to take off tax from any interest it adds. They said if it does then Sainsbury's Finance must give Mr H a certificate showing how much tax it's taken off if Mr H asks for one.

I think the steps our investigator recommended are a fair and reasonable outcome to this complaint, so those are the steps I'm going to require Sainsbury's Finance to take in full and final settlement of this complaint.

My final decision

My final decision is that I require Sainsbury's Bank Plc to carry out the four steps outlined above in full and final settlement of this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr H to accept or reject my decision before 18 March 2022.

Nicolas Atkinson
Ombudsman